

Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

7 MAR 1985

MEMORANDUM FOR: Mr. Ken Glozer
Office of Management and Budget

FROM: [Redacted]
Director of Global Issues

SUBJECT: Persian Gulf Oil Pipeline Prospects: Energy Security
in an Era of Austerity [Redacted]

I wish to bring to your attention the attached report prepared by members of my staff concerning alternative Persian Gulf export pipeline capacity. In our view, progress on several pipeline construction projects spurred by security concerns arising from the Iran-Iraq war will lead to increased export pipeline capacity in the near term. However, unless there is a significant change in the oil market or Gulf regional security, we do not now expect additional pipeline construction this century. If you or members of your staff have questions concerning the report, please call [Redacted]

[Redacted]

[Redacted]

Attachment:

Persian Gulf Oil Pipeline Prospects: Energy Security in an Era of Austerity

GI M 85-10054, March 1985, [Redacted]

[Redacted]

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SUBJECT: Persian Gulf Oil Pipeline Prospects: Energy Security in an
Era of Austerity [REDACTED]

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OGI/SRD/SFB/[REDACTED] (5 March 1985)

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5 March 1985

Persian Gulf Oil Pipeline Prospects: Energy
Security in an Era of Austerity

Summary

The persistence of the Iran-Iraq war and the increased danger to Persian Gulf shipping posed by growing Iraqi military capabilities have led to renewed momentum for construction of alternative Gulf oil export outlets, despite spending cutbacks brought on by the weak oil market. Completion of projects by 1987 to further expand the Iraq-Turkey pipeline and the Saudi East-West line will nearly double the current 2.8 million b/d capacity of pipelines bypassing the Strait of Hormuz. Iraq's spurline to Saudi Arabia's East-West line to the Red Sea—which probably will be completed by mid-1986—will enhance Iraq's export capability, but will not expand alternative Persian Gulf outlets.

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[redacted] Saudi Arabia and Iraq will be much less dependent on Persian Gulf oil outlets once current projects are completed, while other Gulf exporters are likely to remain tied to shipments from inside the Gulf.

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The prospective pipeline capacity will substantially reduce the vulnerability of major importers to a disruption of Persian Gulf oil exports into the 1990s. Last year, only 16 percent of the 8.7 million b/d of oil shipped from the region did not pass through the Strait of Hormuz. When the new pipelines are completed, Gulf countries will be able to export about one-third—some 5.2–6.2 million b/d—of their current available capacity through outlets outside the Gulf. However, we expect dependence on Persian Gulf crude flows through the Strait of Hormuz will grow again in the 1990s as demand recovers and production gains elsewhere slow. When Gulf production returns to near capacity levels, the capability of these alternative lines to offset the potential loss of shipments from Gulf ports will again diminish.

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This memorandum was prepared by [redacted] Strategic Facilities Branch, Office of Global Issues. The information contained herein is updated to 5 March 1985. Comments may be directed to [redacted] Chief, Strategic Facilities Branch, [redacted]

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Persian Gulf Oil Pipeline Prospects: Energy
Security in an Era of Austerity

Gulf Oil Exports and the Strait of Hormuz*

Persian Gulf countries produced about 20 percent of the non-Communist world's oil supply in 1984, accounting for more than 32 percent of Western Europe's imports, 66 percent of Japanese imports, and 14 percent of US crude imports. Most of this oil is shipped through the Strait of Hormuz--about 85 percent of the 8.7 million b/d of oil exported by Gulf countries in 1984 passed through this chokepoint. Continued Iraqi tanker attacks and the potential consequences of Iran's threats to disrupt Arab oil flows through the Strait, heightened by the indefensibility of Gulf export facilities and shipping, spurred Persian Gulf governments' interest in developing alternative ways of exporting oil from the region.

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Table 1
Oil Flows From the Persian Gulf in 1984
(thousand b/d)

	<u>Production</u>	<u>Domestic Consumption</u>	<u>Pipeline Exports</u>	<u>Strait Exports</u>
Iran	2,379	650	0	1,729
Iraq#	1,178	250	850	0
Saudi Arabia	4,401	900	400	3,101
Qatar	387	15	0	372
UAE	1,210	125	0	1,085
Bahrain	42	42	0	0
Kuwait	938	170	0	768
Neutral Zone	454	--	--	954
Total	10,989	2,152	1,250	7,509

Figures may not add to totals shown because of Iraqi truck exports estimated at between 50,000 and 75,000 barrels per day.

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*This paper examines the current status and future prospects of oil exporting alternatives in the Persian Gulf.

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Existing Export Alternatives

Only two large diameter pipelines with a capacity of about 2.8 million b/d currently provide an alternative in the Persian Gulf to exporting crude oil through the Strait of Hormuz. The 40-inch Iraq-Turkey line, Baghdad's only operating pipeline export route, shipped an average of about 850,000 b/d in 1984--about 72 percent of daily production--from Iraq's northern Karkuk oilfield to the Mediterranean Sea at Ceyhan, Turkey. The Saudis' 1.85 million b/d East-West Petroline, connecting east coast oil facilities to Yanbu al Bahr on the Red Sea, averaged only about 840,000 b/d throughput in 1984, with a peak of 1.3 million b/d in June. Most of this crude, however, was delivered to Riyadh's west coast refineries and crude exports were only about 400,000 b/d--about 10 percent of Saudi daily production. The region's two other large export lines, outside the Gulf, the Trans-Arabian-Pipeline (Tapline) and the Iraq-Syria-Lebanon Pipeline, are no longer used to ship crude to the Mediterranean Sea. We believe the military-political situations in Lebanon and Syria, deterioration of equipment, and the application of portions of these lines to other uses will prevent the reopening of Tapline and will probably prevent the reopening of the Syrian line for oil exports. [REDACTED]

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Expansion Underway

The prolonged Iran-Iraq war has focused the attention of Persian Gulf countries on strategic projects involving larger, more flexible oil export systems bypassing the Strait of Hormuz. [REDACTED]

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The present soft world oil market--as well as hindrances to oil exports caused by the Gulf war--have resulted in major oil revenue and reserve declines over the last several years. The recent austerity measures undertaken in many Gulf countries suggest that only strategically important lines will be built. [REDACTED]

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Iraq-Saudi Pipeline. Baghdad's highest priority oil export expansion project is the construction of a 48-inch spurline linking Iraq's southern oilfields near Az Zubayr to the Saudi East-West Petroline. Construction of the 640-kilometer, 500,000 b/d line began in Iraq in October 1984. [REDACTED]

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[redacted]
[redacted] A source of the US Embassy in Baghdad reports a Japanese firm won a \$200 million contract to build storage facilities near Az Zubayr for about 4 million barrels of crude oil scheduled for shipment through the new line. Another 2 million barrels of storage is being constructed where the spurline connects with Petroline. [redacted]

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Iraq views the link to Petroline as only the first phase of the expansion project; it envisions Phase II to include construction of a separate 56-inch Iraqi line running parallel to Petroline. This line, which reportedly will take 30 months to construct, would connect the spurline to Red Sea export facilities and raise Baghdad's export capability through this line to 1.6 million b/d of crude oil--a 200 percent increase. Riyadh, however, has yet to authorize this part of the project. According to an Embassy source, Saudi Arabia is reluctant to approve the added export capacity because it continues to regard Iraqi facilities in Saudi territory with concern and it sees the added capacity as unnecessary. [redacted]

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Saudi East-West Pipeline. Riyadh's desire to reduce the vulnerability of its oil export flows by adding export capacity outside the Gulf has led Saudi Arabia to study various options for expanding Petroline. [redacted]

[redacted]
[redacted] Although Aramco approved \$900 million for expanding the line in November according to a State Department source, [redacted]

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[redacted] an official decision is not expected before the 1985-86 fiscal budget is announced in March. [redacted]

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Other Proposals

The resolve of the Gulf countries to diversify their export facilities will depend largely on their security expectations for the Gulf and the Strait of Hormuz and will also be influenced by world oil market conditions. [redacted]

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Prospects

Although construction of the Iraq-Saudi spurline has been slowed by unexpected technical problems--defective pipe and difficult trenching conditions--as well as contractor manpower limitations imposed by Baghdad, Iraq's persistence and overriding economic needs make completion of the project by early 1986 highly likely in our view.

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